

**VERMONT PENSION INVESTMENT COMMITTEE**  
**January 24, 2012**

**VPIC Members Present:**

STEPHEN RAUH, CHAIR

BETH PEARCE, VICE-CHAIR, Vermont State Treasurer

VAUGHN ALTEMUS, Governor's Delegate, term expiring June 30, 2014

DICK JOHANNESSEN, Governor's Delegate, term expiring June 30, 2014

STEVEN JEFFREY, VMERS Representative, term expiring June 30, 2014

ROBERT HOOPER, VSERS Representative, term expiring June 30, 2012

**VPIC Member(s) Absent:**

JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2013

**VPIC Alternate Members Present:**

THOMAS MCCONNELL, VSTRS *Alternate*, term expiring June 30, 2013

KAREN PAUL, *Alternate* Governor's Delegate, term expiring June 30, 2012

KEVIN GAFFNEY, VSERS *Alternate*, term expiring June 30, 2012

**VPIC Alternate Member(s) Absent:**

THOMAS GOLONKA, VMERS *Alternate*, term expiring June 30, 2012

**Also attending:**

Steve Wisloski, Deputy Vermont State Treasurer

Matt Considine, CFA, Director of Investments

Katie George, Investments Manager

Jaye Pershing Johnson, Attorney General's Office

Christopher Levell and Doug Moseley, NEPC LLC

Joel East and Kevin Howard, JP Morgan

Daniel Philps and Patricia M. Karolyi, Mondrian Investments Partners Limited

Brian Hess and Nedra Hadley, Brandywine Global Investment Management, LLC

Julius Moschitz and Isaac Kruschek, Wellington Management Company, LLP

Monica Chiren, Clerk

**CALL TO ORDER:**

The Chair, Mr. Rauh, called the Tuesday, January 24, 2012 meeting to order at 8:30 a.m., which was held in the 4<sup>th</sup> Floor Conference Room, 109 State Street, Montpelier, VT.

**ITEM 1:      **Agenda Approval, Announcements, and Minutes of December 20, 2011 Regular Meeting****

The Chairperson, Mr. Rauh introduced Joel East and Kevin Howard from JP Morgan, who would be sitting in on the meeting. Mr. Wisloski introduced Katie George as the new Investments Manager for the Treasurer's Office. The Committee welcomed Ms.

George to the meeting. Mr. Rauh indicated there would be the Global Fixed Income Manager Panel and Discussion after lunch. There were no additions to the agenda.

Mr. Altemus indicated he had an interest in attending the PIMCO conference. It was also indicated that Mr. Johannesen had an interest in attending. Mr. Wisloski indicated they have not received the schedule and content of this year's conference yet.

**On a motion by Ms. Pearce, seconded by Mr. Jeffrey, the Committee unanimously approved the minutes of the December 20, 2011, Regular Meeting, as submitted.**

**ITEM 2:      Director of Investments Report**

- **Review December Flash Report**

Mr. Considine indicated that three securities in the PIMCO Core Plus fund had been downgraded. Mr. Considine indicated he granted a "Director approved waiver" to PIMCO for two of the securities since they fell below the dollar limit. Mr. Considine indicated the third security had a market value of \$2MM. Mr. Considine indicated after conferring with Mr. Rauh it was decided to allow PIMCO to continue to hold this security, as they had requested. KDP did not have any downgraded securities. Mr. Considine indicated he may be able to obtain a report of upgrades in response to Mr. Altemus' inquiry.

Mr. Considine indicated the Standards of Conduct previously adopted by VPIC continues to work its way through the rule-making process.

Mr. Considine indicated as of the close of market January 16, 2012 the Quality D Liquidity Pool net asset value (NAV) was \$1.0000, the Duration Pool NAV was \$0.9493 and the overall Quality D NAV was \$0.9924, up slightly from an NAV of \$0.9914 in the prior month. Mr. Considine indicated the Liquidity Pool's percentage rose to 84.9% from 81.4% of VPIC's invested amounts, and the Duration Pool decreased to 15.0% from 18.6%, compared to December. Mr. Considine indicated the "underwater" amount was unchanged from the prior month of \$1.9 million. It was indicated the "breakeven" timeframe decreased to 13.7 months from 14.7 months previously. Mr. Considine indicated the Committee would be discussing securities lending in more detail later on in the agenda.

Mr. Considine reviewed with the Committee the Portfolio asset allocation update. Mr. Considine indicated the Portfolio asset allocation was running pretty tight to the manager's targets, except equities at 32.7% which was under the target of 33.5%.

Mr. Considine reviewed the assets under management document with the Committee.

Mr. Considine indicated the membership for the Council of Institutional Investors was coming up for renewal. Mr. Considine indicated the annual membership is \$4,123.60.

Mr. Wisloski indicated to the Committee the reasoning for having a membership with Council of Institutional Investors.

**On a motion by Mr. Hooper, seconded by Mr. Altemus, the Committee unanimously moved to approve the expenditure of \$4,123.60 for the renewal of the annual membership with the Council of Institutional Investors.**

Mr. Rauh reminded the Committee that the completed Disclosure Forms needed to be provided to Mr. Considine.

(Mr. Johannesen, Ms. Johnson, Mr. Levell and Mr. Gaffney entered the meeting during this agenda item.)

Mr. Moseley reviewed the December 2011 flash report with the Committee. There was a discussion about benchmarks.

**ITEM 3:      Discussion Items/Updates**

- **Contract Updates**
- **Governance/Investment Guideline Sub-Committee Update**
- **Foreign Securities Litigation**
- **Report on Super Bowl of Indexing Conference**
- **Report on VPIC Meeting with BERS**
- **NEPC Manager Watch List Updates: Mellon, GAM**

Ms. Johnson indicated they are in the process of contract negotiations and implementation of JP Morgan's contract.

Mr. Rauh briefly reviewed the VPIC Governance Model slide as provided in the Board packets. Mr. Rauh indicated the Sub-Committee would provide an update in the future.

Ms. Johnson reviewed the foreign securities litigation with the Committee and answered any questions they had.

(Ms. Pearce left briefly during this agenda item.)

Mr. Hooper provided the Committee with handouts relative to the Super Bowl of Indexing Conference, along with presentations on CD's. Mr. Hooper indicated this information was provided for the Committee to review at their convenience.

Mr. Rauh indicated the VPIC meeting with BERS went well. Ms. Pearce indicated it was a win-win situation.

Mr. Moseley indicated Mellon should be taken off the watch list. Mr. Moseley indicated GAM has hired a few people and that he would provide a further update next month.

**ITEM 4: Private Equity Manager Search**

(Mr. Wisloski left the meeting during this agenda item.)

Mr. Moseley reviewed with the Committee the *2012 Fund of Funds Search Results Summary* document. Mr. Moseley reviewed with the Committee private equity strategies. NEPC provided their recommendation of what strategies VPIC should invest in. NEPC reviewed the four firms VPIC might want to consider, which were Adams Street Partners, PineBridge Investments, HarbourVest Partners, and Pantheon Ventures. Mr. Moseley reviewed the fee structures for the four firms. The Committee discussed the private equity benchmark. It was decided Ms. Johnson and Mr. Moseley would review the legal issues associated with a private equity manager before the February meeting. Mr. Rauh indicated they will continue the discussion on this item.

(Mr. Howard left the meeting at this time.)

**ITEM 5: Preview Asset Allocation and Portfolio Structure Review**

- **Hedge Fund-of-Funds Overlap Analysis**

Mr. Levell reviewed with the Committee the *Asset Allocation Assumptions – Challenges and Opportunities* handout. Mr. Levell answered all questions posed by the Committee.

(Mr. Wisloski returned to the meeting during this agenda item.)

The Committee discussed other public funds and their approach to the current market. The Committee discussed the fact it was an election year. Mr. Rauh indicated the Committee will discuss this item further.

(A luncheon recess was taken from 12:15 p.m. to 1:00 p.m.)

(Ms. Paul and Mr. East were not present for the afternoon session.)

(Mr. Jeffrey was not present after the luncheon recess.)

**ITEM 6: Global Fixed Income Manager Panel and Discussion**

(Mr. Philips, Ms. Karolyi, Mr. Hess, Mr. Moschitz and Mr. Kruschek entered the meeting.)

The presenters from Mondrian Investments Partners Limited, Wellington Management Company, LLP and Brandywine Global Investment Management, LLC were introduced and welcomed to the meeting. Mr. Rauh provided a brief overview of how he saw the discussion would proceed.

Daniel Philps and Patricia M. Karolyi from Mondrian Investments Partners Limited reviewed with the Committee *The Euro Zone Crisis: Outlook and Scenarios* presentation.

Julius Moschitz and Isaac Kruschek from Wellington Management Company, LLP reviewed with the Committee their VPIC presentation.

Brian Hess from Brandywine Global Investment Management, LLC reviewed with the Committee his *Global Macro Overview* presentation.

All presenters responded to the inquiries as posed by the Committee.

(Ms. Hadley and Mr. Jeffrey entered the meeting during this agenda item.)

(Ms. Pearce left the meeting briefly during this agenda item.)

The presenters thanked the Committee for the opportunity to appear before them and have this discussion. Mr. Rauh thanked the presenters for their time and willingness to have this panel discussion.

(A recess was taken from 2:45 p.m. to 2:58 p.m.)

(Mr. Philps, Ms. Karolyi, Mr. Hess, Ms. Hadley, Mr. Moschitz and Mr. Kruschek left the meeting at this time.)

(Mr. Gaffney was not present after the recess.)

The Committee discussed the presentation and panel discussion.

The Committee discussed healthcare. Mr. Hooper inquired what the status of going to a paperless meeting was. Mr. Rauh indicated this item would be put on the agenda again after Mr. Considine has had an opportunity to touch base with Mr. Golonka and the IT Department.

#### **ITEM 7:      Securities Lending Analysis and Discussion**

The Committee discussed securities lending. The Committee discussed the options that were available during the transition from State Street to JP Morgan. There was a recommendation that the real underwater amount should be determined. The consensus of the Committee was to allow NEPC and staff to obtain the underwater amount, and then to return to the Committee with a recommendation of how they should proceed.

#### **ITEM 8:      Economic and Financial Market Dashboard**

The Committee discussed the list of positive and negative factors. Mr. Johannesen requested that if a new factor is added that it should be highlighted by an asterisk. The Committee discussed the addition of some positive and negative factors and the change in

status of some of the asset classes. The Committee set its 12-month forward expectation for U.S. GDP at 1.5%, and for CPI at 2.0%.

**ITEM 9: Other or New Business**

None.

**ITEM 13: Adjournment**

**The Committee adjourned at 4:01 p.m.**

Respectfully submitted,

Monica Chiren, Clerk